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SUBJECT: BOTSWANA 'S ECONOMIC SUCCESS OFFERS LESSONS FOR
MINERAL-RICH COUNTRIES

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¶1. Summary. Botswana is a remarkable economic success story in Africa. Since independence in 1966, it has escaped poverty to become a middle income, democratically stable success, avoiding the numerous pitfalls that commonly affect mineral rich countries in Africa. There is no single reason for Botswana's success; rather, a combination of wise leadership, sound economic policies and effective institutions have allowed the country to prosper - growing by an annual average GDP per capita rate of over 6% since 1970. Botswana demonstrates that a country rich in minerals, in this case diamonds, can manage its resources with vision and in ways that enhance the country as a whole, supporting all of its citizens. While there are no cookie-cutter solutions, Botswana's achievements offer some best practices for other mineral-rich countries, including creating a revenue stabilization fund and empowering a well-educated, politically independent civil service. End Summary.

¶2. This is the fifth in a series of cables intended to assess the strategic value to the United States of our collaboration with the Government of Botswana (GOB).

Leaders Serving the Common Good

¶3. Botswana has been fortunate to have had an unbroken series of competent political leaders who have worked for the common good. At independence in 1966, Botswana's first President Seretse Khama recognized that his role as President was to develop Botswana's infrastructure and economy and improve the lives of its citizens. The country's subsequent leaders (Botswana has had only four Presidents so far) have largely followed Khama's example. Strategic leadership in Botswana also takes place within the civil service. Well-educated technocrats manage the day-to-day operations of government. Today, the GOB's track record of transparency and accountability distinguishes Botswana from many of its peers. But the country's direction and priorities are not simply dictated by its elected leaders. Historically, important decisions were made by chiefs after first building consensus at the village meeting place (the "kgotla") through long discussions where all village males were able to express their opinions regardless of their social status. Botswana's modern political leaders still address and consult at kgotla meetings today, and this longstanding tradition of discussion and consensus building helps to influence and legitimize government policy.

Conservative, Consistent Policies

¶4. Botswana's sound and consistent economic policies are another

reason the country has been able to achieve such rapid growth and development. While diamonds were discovered in Botswana in the late 1960's, large-scale mining only began in the late 1970's. Because it was created before Botswana reaped the benefits of its diamond wealth, Botswana's macroeconomic policy focused on resource conservation and minimizing risk; the Batswana were farmers raising cattle on the edge of a desert and were cautious in the face of drought. From independence, the country has embarked on a series of long-term National Development Plans, which prioritize development Olong-term National Development Plans, which prioritize development projects, including construction of schools, roads and health centers. These economically conservative policies have continued even as diamond revenues have increased. Outside investors were also attracted to Botswana because its economic policies have been consistent over time. Soon after large-scale diamond mining began in Botswana, the GOB had the foresight to create a "rainy day fund" with its excess revenues, rather than spending its newfound wealth on consumption or white elephant projects. The GOB then used its foreign exchange and cash reserves to offset recurring short-term economic fluctuations. Botswana's consistent macroeconomic environment and high rate of savings not only earned the country a Grade "A" investment rating from Moody's, but also enabled Botswana to keep this rating despite the current economic crisis. While these policies laid a foundation for Botswana's economic success, they have ultimately been successful due to their implementation by independent institutions within Botswana.

Institutions That Work

¶5. Financial institutions including the Ministry of Finance and Development Planning (MFDP) and the Bank of Botswana (BOB) - which serves as the national reserve bank - are models of effective public

institutions within Botswana and across the continent. The institutions are run by well educated and capable leadership and staffed by a competent, apolitical civil service corps. Most importantly, they function independently and are not subject to political interference in either policy matters or in daily operations. Positions in these institutions are awarded on a person's qualifications rather than as a political reward. As a result, both institutions have effectively fulfilled their mandates and have engaged sound economic practices in directing Botswana's growth. Among other responsibilities, the BOB manages Botswana's extensive foreign exchange reserves and implements the country's exchange rate policy. This stewardship is often cited as one reason why Botswana's economic performance has remained strong and why Botswana has been able to avoid the problem common to resource-rich countries of an overinflated currency, which often devastates local industry by making imports cheap and accessible.

International Partnerships

¶6. Though Botswana received significant donor attention in its early years, once it achieved middle income status in the late 1990's, foreign development assistance was largely withdrawn. However, Botswana was one of the countries hardest hit by the HIV/AIDS crisis, and then-President Mogae reached out to the U.S., U.N. and other donors to request new assistance to address the epidemic. The USG is currently Botswana's single largest donor, but our programs here are almost exclusively AIDS related. (The U.S. PEPFAR program spent \$93 million in Botswana last year, and over \$300 million since 2005.) Outside of help with the AIDS crisis, Botswana today receives limited technical assistance and financial support from the USG and other donors. The GOB is generally happy with the support it receives, although senior officials regularly note that Botswana still has significant development challenges and should not be "punished" for its successes by, for example, being left out of the Millennium Challenge Program due to its relatively high average income. The USG has partnered with Botswana in recent years to provide strategic advice for economic diversification, the country's next challenge. OPIC, for example, provided a \$250 million loan facility to help start a diamond cutting and polishing industry here, while USTDA grants have helped with power sector and aviation security projects. The GOB also works productively with the USAID-funded Southern African Competitiveness Hub, using Hub advice to improve the Trans-Kalahari transport corridor, implement common

regional customs documents and work toward more efficient border posts.

Exportable Lessons?

17. Comment. Botswana is an example of how a mineral-rich country can use its resources well. Botswana proves that good governance, sound policies and functional, independent institutions can lead to sustained economic growth. While there are no cookie-cutter solutions, in many ways Botswana's success could be emulated in other countries, many of which have abundant unrealized potential through minerals and natural resources. First, Botswana's experience suggests that resource dependent economies should concentrate on saving revenues and create stabilization funds to buffer themselves as prices fluctuate. Though it may be difficult to begin to accumulate reserves during an economic slowdown, countries should prioritize implementation of such funds as their economies recover. Second, building a competent, politically independent civil service would appear to be essential. Competent technocrats within Ministries not only help to deepen the expertise to make and implement policies, but also help mold future leaders from within the civil service, which could bring technical expertise and policy consistency over time. Success is hardly easy or swift, but Botswana's experience suggests that true economic success and stability in Africa is possible. End Comment.

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